

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT

**Montana Chiropractic Legal Panel**

*June 30, 2014 and 2013*

# LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:  
Cindy Jorgenson  
Angus Maciver

November 2014

The Legislative Audit Committee  
of the Montana State Legislature:

Enclosed is the report on the audit of the Montana Chiropractic Legal Panel for the two fiscal years ended June 30, 2014.

The audit was conducted by Galusha, Higgins, & Galusha, P.C., under a contract between the firm and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The agency's written response to the report is included in the Schedule of Findings and Responses section of the audit report.

Respectfully submitted,

*/s/ Tori Hunthausen*

Tori Hunthausen, CPA  
Legislative Auditor

14C-10

FINANCIAL STATEMENTS AND  
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**Montana Chiropractic Legal Panel**

*June 30, 2014 and 2013*



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# Montana Chiropractic Legal Panel

*June 30, 2014 and 2013*

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## INDEPENDENT AUDITOR'S REPORT

To the Director  
Montana Chiropractic Legal Panel  
Helena, Montana

### **Report on the Financial Statements**

We were engaged to audit the accompanying financial statements of Montana Chiropractic Legal Panel, which comprise the statements of assets, liabilities, and surplus - cash basis as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in surplus - cash basis for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Montana Chiropractic Legal Panel's management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note A; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### ***Basis for Disclaimer of Opinion***

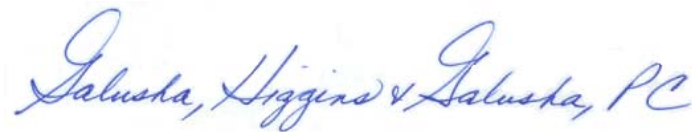
The Montana Chiropractic Legal Panel did not have sufficient internal controls to provide reasonable assurance over the amount of management fee expense for 2014 or 2013, stated in the accompanying financial statements at \$7,144 and \$7,047 for the years ended June 30, 2014 and 2013, respectively. The entity's records do not permit the application of other auditing procedures over management fee expense.

### ***Disclaimer of Opinion***

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2014 on our consideration of Montana Chiropractic Legal Panel's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Montana Chiropractic Legal Panel's internal control over financial reporting and compliance.

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GALUSHA, HIGGINS & GALUSHA, PC  
Certified Public Accountants and Advisors

Helena, Montana  
November 15, 2014

**Montana Chiropractic Legal Panel**  
**STATEMENTS OF ASSETS, LIABILITIES, AND SURPLUS - CASH BASIS**  
*June 30,*

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	2014	2013
<b>ASSETS</b>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 31,003	\$ 22,863
<b>TOTAL ASSETS</b>	<b>\$ 31,003</b>	<b>\$ 22,863</b>
<b>LIABILITIES AND SURPLUS</b>		
SURPLUS		
Surplus	\$ 31,003	\$ 22,863
<b>TOTAL LIABILITIES AND SURPLUS</b>	<b>\$ 31,003</b>	<b>\$ 22,863</b>

The accompanying notes are an integral part of these financial statements.

**Montana Chiropractic Legal Panel**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES**  
**IN SURPLUS - CASH BASIS**  
*for the years ended June 30,*

REVENUES	2014	2013
Assessment fees	\$ 18,075	\$ 17,450
Late fees	-	350
Total revenue	<u>18,075</u>	<u>17,800</u>
EXPENSES		
Audit	-	5,050
Copying and printing	522	1,047
Computer and internet	-	60
Director expenses	-	201
Management fee	7,144	7,047
Hearing expenses	1,572	2,545
Postage	276	535
Rent	60	-
Supplies	361	89
Total expenses	<u>9,935</u>	<u>16,574</u>
INCREASE IN SURPLUS	8,140	1,226
Surplus, beginning of year	<u>22,863</u>	<u>21,637</u>
SURPLUS, END OF YEAR	<u><u>\$ 31,003</u></u>	<u><u>\$ 22,863</u></u>

The accompanying notes are an integral part of these financial statements.



# Montana Chiropractic Legal Panel

## NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014 and 2013

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### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Nature of Activities - Montana Chiropractic Legal Panel was established by the “Montana Chiropractic Legal Panel Act” as authorized by Section 27-12-101 and 104 Montana Code Annotated (MCA). The panel is a quasi-governmental entity and is allocated to the Montana supreme court for administrative purposes only, except that 2-15-121(2) MCA does not apply.

The Montana Chiropractic Legal Panel was created to review all malpractice claims or potential claims against chiropractic physicians, except claims subject to a valid arbitration agreement allowed by law. The purpose of the Montana Chiropractic Legal Panel is to prevent, whenever possible, the filing of court actions against chiropractic physicians and their employees for professional liability situations in which the facts do not permit at least a reasonable inference of malpractice. Also the purpose of the Montana Chiropractic Legal Panel is to make possible the fair and equitable disposition of such claims against chiropractic physicians as are or reasonably may be well founded.

2. Basis of Accounting - The accompanying financial statements have been prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Accordingly, revenue is recorded when received rather than when earned and expenses are recognized when paid rather than when the obligation is incurred.
3. Reporting Entity - In accordance with government accounting and financial reporting standards, there are no component units to be included with the Montana Chiropractic Legal Panel.
4. Assessment Fees - The Montana Chiropractic Legal Panel is funded by an annual assessment fee levied on all licensed and active chiropractic physicians at the beginning of each fiscal year, beginning July 1. The amount of the assessment is set annually by the director and is equally assessed against all chiropractic physicians. A fund surplus at the end of the year that is not required for the administration of the Montana Chiropractic Legal Panel during the next fiscal year, in which event the director will reduce the next annual assessment to an amount estimated to be necessary for the proper administration of Montana Chiropractic Legal Panel during that fiscal year. The fund and any income from it must be held in trust and deposited in an account by the director.
5. Cash and Cash Equivalents - The Montana Chiropractic Legal Panel considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents. Due to their highly liquid nature, carrying value approximates fair value.
6. Reclassifications - Certain reclassifications have been made to the prior year amounts to conform to the current year presentation. These reclassifications had no impact on the change in surplus.
7. Subsequent Events - Management has performed an analysis of the activities and transactions subsequent to June 30, 2014 to determine the need for any adjustments to and/or disclosures within the financial statements for the year ended June 30, 2014. Management has performed this analysis through November 15, 2014, the date the financial statements were available to be issued.

Continued

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Director  
Montana Chiropractic Legal Panel

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of Montana Chiropractic Legal Panel as of and for the years ended June 30, 2014 and 2013, and have issued our report thereon dated November 15, 2014. We have issued a Disclaimer of Opinion for the years June 30, 2014 and 2013 because of the matter described in the Basis for Disclaimer of Opinion paragraph of our report.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered Montana Chiropractic Legal Panel's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Montana Chiropractic Legal Panel's internal control. Accordingly, we do not express an opinion on the effectiveness of Montana Chiropractic Legal Panel's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether Montana Chiropractic Legal Panel's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

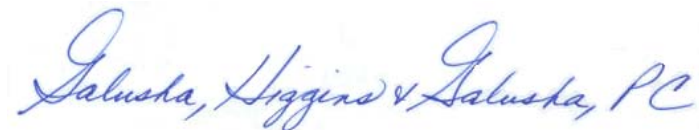
Per MCA 27-12-207, during a Panel audit the report must include a determination of the adequacy, sufficiency and reasonableness of the annual assessment. Due to the scope limitation during the audit, we were unable to conclude on the assessment. Montana Chiropractic Legal Panel's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Montana Chiropractic Legal Panel's response and, accordingly, we express no opinion on it.

### **Montana Chiropractic Legal Panel's Response to Findings**

Montana Chiropractic Legal Panel's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. Montana Chiropractic Legal Panel's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Galusha, Higgins & Galusha, PC". The signature is written in a cursive, flowing style.

GALUSHA, HIGGINS & GALUSHA, PC  
Certified Public Accountants and Advisors

Helena, Montana  
November 15, 2014

# Montana Chiropractic Legal Panel

June 30, 2014 and 2013

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## SCHEDULE OF FINDINGS AND RESPONSES

### Finding 2014-001, 2013-001

#### **Material Weakness in Internal Control over Financial Reporting—Failure to properly segregate authority, custody, and record keeping in the cash disbursements process.**

*Criteria:* Internal controls should be in place to provide reasonable assurance that misappropriation of assets does not occur and that cash is accounted for properly.

*Condition:* Presently, one person is charged with approving invoices, recording cash disbursements in the accounting software and signing checks.

*Cause:* There were not adequate internal controls in place to provide reasonable assurance that misappropriation of assets did not take place and cash is accounted for properly.

*Effect or Potential Effect:* Lack of segregation of duties increases the risk that misappropriation of assets and material misstatements will occur and not be detected by the Panel's internal controls.

*Recommendation:* Someone separate from the person recording the cash disbursements in the accounting software should approve invoices and sign checks.

*Responsible Official's Response:* The board is working on asking the director of the Montana Chiropractic Association to review and approve invoices. No one else is available to sign checks other than the person recording cash disbursements.

### Finding 2014-002, 2013-002

#### **Material Weakness in Internal Control over Financial Reporting—Failure to properly segregate authority, custody, and record keeping in the cash receipts process.**

*Criteria:* Internal controls should be in place to provide reasonable assurance that misappropriation of assets does not occur and that cash is accounted for properly.

*Condition:* Presently, one person is charged with receiving cash, recording the cash receipt in the accounting software, sending out invoices and taking deposits to the bank.

*Cause:* There were not adequate internal controls in place to provide reasonable assurance that misappropriation of assets did not take place and cash is accounted for properly.

*Effect or Potential Effect:* Lack of segregation of duties increases the risk that misappropriation of assets and material misstatements will occur and not be detected by the Panel's internal controls.

*Recommendation:* Someone separate from the person recording the cash receipts in the accounting software should be receiving cash and taking deposits to the bank.

*Responsible Official's Response:* No one separate from the person recoding the cash receipts is available to receive cash and take deposits to the bank.

# Montana Chiropractic Legal Panel

June 30, 2014 and 2013

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## **Finding 2014-003, 2013-003**

### **Material Weakness in Internal Control over Financial Reporting—Failure to obtain proper review and approval for management fees paid to the Director.**

*Criteria:* Internal controls should be in place to provide reasonable assurance that misappropriation of assets does not occur and that cash is accounted for properly.

*Condition:* Presently, the Director issues invoices to the Montana Chiropractic Legal Panel for hours worked and reimbursable expenses and then issues and signs the check to pay the invoices.

*Cause:* There were not adequate internal controls in place to provide proper segregation of duties.

*Effect or Potential Effect:* Lack of review and approval of management fees and reimbursable expenses paid to the Director increases the risk that misappropriation of assets and material misstatements will occur and not be detected by the Panel's internal controls.

*Recommendation:* Someone should be reviewing and approving the amount paid to the Director for management fees and reimbursable expenses each month.

*Responsible Official's Response:* The board is working on asking the director of the Montana Chiropractic Association to review and approve the amount paid to the director for management fees and reimbursable expenses each month.

## **Finding 2014-004, 2013-003**

### **Material Weakness in Internal Control over Financial Reporting—Failure to properly reconcile the bank account.**

*Criteria:* Internal controls should be in place to provide reasonable assurance that misappropriation of assets does not occur and that cash is accounted for properly.

*Condition:* Presently, the bank account is not being reconciled to QuickBooks.

*Cause:* There were not adequate internal controls in place to provide for reconciliation of the bank account.

*Effect or Potential Effect:* Lack of appropriate reconciliation of the bank account increases the risk that misappropriation of assets and material misstatements will occur and not be detected by the Panel's internal controls.

*Recommendation:* Someone should be reconciling the bank account to QuickBooks on a monthly basis with a separate individual reviewing the reconciliation and bank statement.

*Responsible Official's Response:* No one separate from the individual reconciling the bank account to QuickBooks is available to review the reconciliation and bank statement.

# Montana Chiropractic Legal Panel

*June 30, 2014 and 2013*

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## SCHEDULE OF PRIOR AUDIT RECOMMENDATIONS

The following recommendations were made during the prior audit. The status of the Panel's corrective action was reviewed during the current audit and is reported as follows:

*Finding 2012-1* - Material Weakness in Internal Control over Financial Reporting—Failure to properly segregate authority, custody, and record keeping in the cash disbursements process.

**Restated as finding number 2014-001 and 2013-001**

*Finding 2012-2* - Material Weakness in Internal Control over Financial Reporting—Failure to properly segregate authority, custody, and record keeping in the cash receipts process.

**Restated as finding number 2014-002 and 2013-002**

*Finding 2012-3* - Material Weakness in Internal Control over Financial Reporting—Failure to obtain proper review and approval for management fees paid to the Director.

**Restated as finding number 2014-003 and 2013-003**

*Finding 2012-4* - Material Weakness in Internal Control over Financial Reporting—Failure to properly reconcile the bank statement.

**Restated as finding number 2014-004 and 2013-003**